

TENNESSEE HOUSING DEVELOPMENT AGENCY
BOARD OF DIRECTORS
March 18, 2004

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors met on Thursday, March 18, 2004, at 1:00 P.M. in Suite 1200, Parkway Towers, Nashville, Tennessee.

The following members were present: Tim Bolding, Gerald Reed (late arrival) representing Riley Darnell, Peter Abernathy for Commissioner Goetz, Winston Henning, Harold Hunter, Ronnie Knight, Gerald Konohia, Eddie Latimer, Mary Margaret Collier for John Morgan, Tom Mottern, Brad Rainey, Janice Cunningham for Dale Sims, Jerry Sisson, Carl Tindell, Jackie West, and Caestine Williams.

The following members were absent: Susan Brown, Bill Bruce, Bob Cooper, and Ralph Perrey.

Chairman Latimer opened the meeting and welcomed Mr. Tim Bolding, Governor Bredeesen's newly-appointed non-profit representative on the Board. Mr. Bolding shared that he works for United Housing, Inc., an affiliate of Neighborhood Reinvestment Corporation. He said that United Housing has built and sold about 300 houses to first time homebuyers in the Memphis area. The non-profit corporation has an ongoing homebuyer education program in both English and Spanish.

Chairman Latimer recognized Mr. Winston Henning, informing others that Mr. Henning's appointment to the Board stands.

Chairman Latimer opened the meeting for public comments. There were none.

Chairman Latimer called for a motion to approve the minutes of the January 22, 2004, meeting. Mr. Knight so moved, and Mr. Hunter offered a second. The minutes were approved.

Chairman Latimer gave the floor to Ms. Janice Myrick, Executive Director, to present staff recognitions. Andrayus Washington, Compliance Monitor, Judith Ridings, Senior Multifamily Specialist, and Lamont Westbrooks, Project Manager, were recognized for 5 years of service. Mark Davis, Director of Mortgage Administration, received a 10 year service award. Etoyle Goodner, Administrative Services Assistant, was recognized for 20 years of service. Chairman Latimer offered the Board's appreciation to these employees.

Chairman Latimer asked Ms. Myrick to review the monthly Board report. Ms. Myrick summarized material included in the report calling special attention to homeownership activity included in the report. She also described the Section 8 Homeownership Voucher Program, and shared that staff are developing a proposal to increase program activity, and hope to submit the proposal to the Board at the May 2004 meeting. Concerning the outreach information in the Board packet, Ms. Myrick reminded Board members that they are welcome at these functions.

Ms. Mary Margaret Collier, assistant secretary to the Bond Finance Committee, reported on Bond Finance Committee items. Ms. Collier reported that the Committee considered an extension of the financial advisor contract due to expire June 30, 2004. The Committee

recommends an extension of the contract for one year with a new expiration date of June 30, 2005, and with no increase in compensation. Committee members agreed that it would not be advisable for the bond counsel contract and the financial advisor contract to expire at the same time. A one year extension of the financial advisor contract would alter the sequence, and the Committee will evaluate financial advisory services later this year. Upon the recommendation of the Bond Finance Committee, Ms. Collier so moved. Mr. Knight seconded the motion, and the motion was unanimously approved.

The next Bond Finance Committee item was authorization of Issue 2004-2. Ms. Collier informed Board members that \$60 million remains of the proceeds from Issue 2004-2. Expected actions on Policy & Programs Committee agenda items may deplete those proceeds; therefore, the Bond Finance Committee requests authorization to proceed with the sale of another bond issue in an amount not to exceed \$120 million. Ms. Lynn Miller, General Counsel, briefed the Board on the documents included in their packet: a financing recommendation from the Agency's financial advisor, CSG Advisors, a Plan of Financing for Issue 2004-2 with an aggregate principal amount of bonds not to exceed \$120 million, a Board Resolution, and a form of Supplemental Resolution for Issue 2004-2. The Bond Finance Committee adopted the Plan of Financing and recommended authorization of the bond issue. Ms. Miller added that the final bond structure must be approved by the Bond Finance Committee. Chairman Latimer called for a motion. Ms. Collier moved approval of authorization to issue Homeownership Program Bonds, Issue 2004-2, in a maximum principal amount not to exceed \$120 million. Mr. Sisson offered a second. The motion carried.

Ms. Collier shared the Bond Finance Committee's action regarding the Morgan Keegan note program. Morgan Keegan representatives requested three changes to the program. Ms. Collier advised that the requested changes do not affect THDA or the price Morgan Keegan pays for the notes. Morgan Keegan requested an addition of a tender date. The Committee determined that this change would increase the Agency's investor base. Morgan Keegan also requested that the choices of collateral for the notes be broadened. The Committee determined that the Agency's investment policy allows for this. The final request was that these changes apply to both the old and the new notes. Upon the recommendation of the Committee, Ms. Collier moved approval of the requested Morgan Keegan note program changes. Ms. Cunningham seconded. Chairman Latimer asked for any discussion and the issue of the appropriateness of a retroactive action arose. Ms. Miller responded that per bond counsel, adding an additional tender date to the old note will require additional documentation but can be done under current Code requirements. With no further discussion, Chairman Latimer called for the vote. The motion was unanimously approved.

Ms. Collier reported that upon the advice of Mr. Bob Detjen, CSG Advisors, Financial Advisor to THDA, the Bond Finance Committee approved a Plan of Financing and recommends Board authorization of another note under the Morgan Keegan Note Program. The Series 2002CN-1 Note the Agency issued was for \$450 million, and most of it has been drawn down. The note program is used to preserve volume cap. Upon Committee recommendation, Ms. Collier moved adoption of the Resolution authorizing the issuance of Single Family Mortgage Note, Series 2004CN-1, under the Morgan Keegan Note Program. Ms. Miller advised that the Resolution and accompanying documents in the Board packet were reviewed by the Bond Finance Committee and the adopted Plan of Financing authorizes the issuance of a

\$450 million drawdown note with a maturity of up to three years. Chairman Latimer called for a second to Ms. Collier's motion. Mr. Mottern offered a second. The motion carried.

Chairman Latimer encouraged newly-appointed members to call on Ms. Collier or Ms. Miller should there be questions regarding the Agency's bond program.

Mr. Jerry Sisson, Policy & Programs Committee Chair, reported. Mr. Sisson reported that the Committee reviewed and recommends approval of the Proposed Amended 2004 Multifamily Tax-Exempt Bond Authority Program Description ("Amended Program Description"). The Amended Program Description provides for a continuous application cycle until the 2005 Program Description is implemented, or until the 2004 amount of \$99 million is allocated. The Committee also approved an amendment to the Amended Program Description to allow commitment fee refunds to developers exercising the option to receive subsequent year authority should the Agency not have sufficient authority to fulfill the commitment. Chairman Sisson thanked Ms. Miller and Ed Yandell, Director of Multifamily and Special Programs, for their work developing the Amended Program Description. Mr. Sisson moved approval of the Amended Program Description, including the commitment fee refund. Mr. Knight seconded the motion. The motion carried, with Mr. Henning abstaining.

Chairman Sisson reported that current program resources are sufficient to continue the Agency's programs.

Regarding income limits, Mr. Sisson advised that the Policy & Programs Committee reviewed proposed income limits as indicated on "THDA Acquisition Cost and Income Limits Proposed effective April 1, 2004" (the "Proposed Acquisition Cost and Income Limits"). Mr. Sisson noted that the proposal results in modest income limit increases for most Non-MSA counties and rounding adjustments for a few current income limits that must be made to keep them within the prescribed IRS limitations. Upon the recommendation of the Committee, Mr. Sisson moved approval of all income limits as indicated in the Proposed Acquisition Cost and Income Limits. Mr. Hunter offered a second. The motion carried.

Mr. Sisson advised that the Policy & Programs Committee recommends approval of acquisition limits as indicated on the Proposed Acquisition Cost and Income Limits. Mr. Sisson noted that the New Safe Harbor limits are based on FHA limits and make no distinction between new construction and existing construction; thus, the proposal makes fairly substantial changes. Based on staff recommendation and Committee approval, Mr. Sisson moved approval of the proposed acquisition limits as indicated in the Proposed Acquisition Cost and Income Limits, which will set acquisition limits at \$160,176 for the entire State, with the exception of an acquisition limit of \$175,000 for the Nashville MSA, effective April 1, 2004. Mr. Mottern seconded the motion. The motion carried, with Mr. Reed voting no.

The next Policy & Programs Committee item was consideration of removing the 50% limitation from the servicing policy. Mr. Sisson advised that Bank of America, a THDA loan servicer, has moved their servicing operation from Kentucky to New York. After looking at all options, staff recommends the proposed policy change, thereby allowing US Bank Home Mortgage to service these loans. With the addition of the Bank of America loans, US Bank Home Mortgage would service 51% of THDA's loan portfolio. Upon the Committee's

recommendation, Mr. Sisson moved approval of the policy change. Mr. Knight offered a second. The motion passed.

The final Policy & Programs Committee item for consideration was continuance of the Disaster Relief Mortgage Program. Mr. Sisson reminded members that all originally committed resources of the three-tiered program have been used. The Policy & Programs Committee recommends approval of staff's request that the Board delegate authority to the Executive Director to initiate Tier 1 and Tier 2 of the program using 2003 Series A prepayments and delegate authority to the Executive Director to designate disaster areas and timeframes. Authorization to activate the Tier 3 program was not requested at this time, although the Board could authorize funding, if necessary, in the future. Mr. Sisson moved approval to delegate such authority to the Executive Director. Mr. Henning seconded. The motion carried.

Chairman Latimer offered the opportunity for discussion. Mr. Mottern said that he was a newly-appointed member when the Disaster Relief Mortgage Program was established, and thanked staff and the Board for creating the program to help families affected by disaster. Ms. Myrick responded that staff are pleased that resources were available to assist the families in need, and noted that grant dollars are still available to the disaster areas. Mr. Reed recognized Former Chairman David Hayes for conception of the program and initiating its timely startup.

Mr. Harold Hunter provided the Grants Committee report. The Grants Committee recommends approval of the THDA Homebuyer Education Initiative (THBEI) Mentoring Program. The Mentoring Program would provide \$7,500 in THDA funding for experienced non-profits to provide training and technical assistance to inexperienced non-profits in the area of homebuyer education. Mr. Hunter moved approval. Mr. Reed seconded. The motion carried.

Chairman Latimer called on Ms. Jane Boles, Director of Community Programs, to provide an update on capacity building for non-profits. Ms. Boles informed members that a statewide capacity building conference is scheduled for April 13-14 for non-profit agencies. Conference brochures were distributed. Mr. Latimer pointed out that grant dollars are the most difficult to distribute, and noted that very few non-profits in Tennessee build and renovate homes, or make loans to lower-income families. Mr. Latimer indicated that northwest Tennessee is void of non-profits that build homes, although homebuyer education is available. With input from non-profits experienced in homeownership, staff hopes to develop a program proposal to utilize \$1.6 million in American Dream Downpayment Initiative (ADDI) funding to be reviewed at the May 2004 meeting. This program is intended to expand homeownership opportunities to more low-income families through non-profit agencies.

Ms. Boles advised that the deadline for submission of HOME 2004 applications passed. The program has an \$18.2 million allocation, and applications requesting over \$42 million were received.

Chairman Latimer updated members on the efforts of the regional housing meetings. Although the legislative session has taken precedence, Governor Bredesen is interested in the initiative, and key issues from the meetings were submitted for his review.

Ms. Myrick provided information on other Board matters. Ms. Myrick showed members the Partnership Award given to the Agency by Rural Development. THDA did not submit an

application for the award, but was nominated for the award, and ultimately won it. Ms. Myrick said that the Agency strives to partner with as many groups as possible in an effort to fulfill the Agency mission. She expressed her appreciation for recognition of THDA's partnership efforts.

Ms. Myrick briefed the Board on State legislation of interest to the Agency. She advised that the conflict of interest legislation amending THDA's enabling legislation passed and became Public Chapter 444. Disclosure and non-participation issues can possibly be discussed at the May 2004 meeting.

Ms. Myrick referred members to HB3329/SB3259, sponsored by Representative Bowers and Senator Dixon. The legislation requires non-profits offering 0% mortgage loans to require refinancing of the loan be approved by the Board. The bill has been amended to include all governmental and non-profit loans that are 0% or low interest rate loans requiring specific language and permission from the Board for refinancing; however, following conversations with Senator Dixon, staff believes he may remove governmental loans from the bill. Staff will continue to watch the legislation.

Legislation sponsored by Representative McMillan and Senator Crutchfield requiring registration of mortgage loan originators is beginning to see movement.

Ms. Myrick encouraged members to advise her if there is other legislation they want tracked.

There was no updated information on the Agency's Budget Hearings. In the past, Agency staff were called before the Senate Finance Ways & Means Committee. Nothing to the contrary has been received regarding the Agency's request for four improvement positions in the Section 8 Contract Administration Division.

Ms. Myrick reported that staff and Board members participating in the Legislative Conference in Washington, D.C., were able to meet with staff in the offices of Senator Alexander, Senator Frist, Congressman Duncan, Congressman Ford, Congressman Gordon, Congressman Jenkins, and Congressman Tanner. Once again, repeal of the 10-year rule is a priority for housing finance agencies. Ms. Myrick advised that repeal of the 10-year rule has been attached to the corporate tax bill and could result in a one year repeal of the rule. This is the fourth year that attempts have been made to repeal the rule. Congressman Davis offered his assistance in gaining the support of other Tennessee delegates to repeal the 10-year rule. Staff drafted a letter on the issue, and other issues, for his use in supporting the needed actions. As a reminder of the importance of repealing the 10-year rule, Ms. Myrick explained that when the Agency issues bonds, payments or prepayments that come in, after 10 years from the date the bonds were issued, must be used to call bonds from that bond issue. So, higher cost debt cannot be called, no mortgages can be made, and the prepayments cannot be used for any other purpose. The 10-year rule impairs THDA's flexibility.

Regarding other Federal legislation, the NCSHA summary indicates proposed cuts in the Section 8 Voucher Program and a change to a flexible voucher program; however, the proposal cuts administrative fees drastically. These changes would alter the program in a negative way, and concerns were relayed to the Tennessee delegation. Staff also shared their concern about legislation that sets aside \$1.6 million of HOME dollars for down-payment assistance.

Ms. Myrick briefed members on Senator Frist's Bring IT Home campaign initiated to connect low-income communities to the Internet. One possible means for this connection is via the tax credit program. It is unclear how this could work, and staff will be working with One Economy Corporation, a non-profit organization, to evaluate the program. Ms. Myrick advised that Don Harris, Deputy Executive Director, will be gathering information and ideas on the initiative. A pilot program has started in Chattanooga, and staff hopes to gain information from contacts there. This is a non-funded initiative; however, Senator Frist strongly supports it.

Ms. Myrick relayed that while in Washington, D.C., staff and Board members visited the National Building Museum. Mr. Latimer's non-profit company, Affordable Housing Resources, in partnership with MDHA, was recognized for development of the Row8.9n project and their 2004 Excellence in Development Award was on display at the museum. THDA contributed funding for the project through BNI. The development also received HUD's Best in American Living 2003 Award for Excellence, the 2003 Grant Award from Builder's Magazine, the Masonry Institute of Tennessee's 2003 Merit Award, and a Salute to Excellence Award from the Frist Foundation. The College Park/Lemoyne Gardens project in Memphis was also on display at the museum.

Ms. Myrick reminded members that the NCSHA Spring Workshop is scheduled for May 16-18, in Portland, Oregon. She asked that anyone interested in attending inform her as soon as possible in order to process travel requests in a timely manner.

With no other business to come before the Board, the meeting adjourned.

Respectfully submitted,

Janice L. Myrick
Executive Director

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